

PROPERTY TAX OVERVIEW

The property tax is the primary tax for local governments – school districts, technical college districts, counties, municipalities (towns, villages, and cities), and special districts (town sanitary districts, metropolitan sewerage districts, and inland lake districts). Gross property taxes levied in 2011 for collection in 2012 totaled \$10.38 billion, by far the largest tax in the state and local government finance system. For comparison, in fiscal 2012, state income tax collections were \$7.04 billion and state sales tax collections were \$4.29 billion.

Classification of Property

By law, all tangible real property (land and buildings located on that land) and personal property (property with no land attached to it) are to be taxed unless specifically exempt from taxation. Property owned by the federal government, the state, and by local governments is generally exempt. Property owned and used by churches, universities, educational and charitable facilities, non-profit hospitals, and non-profit housing are also generally exempt. Certain types of personal property, such as household personal property, manufacturing machinery and equipment, inventories, computers, and waste treatment equipment are also exempt. Intangible property (examples include bank accounts and corporate securities) are also exempt.

The property tax in Wisconsin is an *ad valorem* (according to value) tax. While local governments are primarily responsible for administering the property tax, state statutes determine how these responsibilities are carried out.

Taxable real property includes not only the land, buildings, improvements and fixtures, but also rights and privileges appertaining to the land. Personal property includes all goods, wares, merchandise, chattels, and effects having any real or marketable value and not included in real property. The assessment date for both types of property is January 1 every year.

Real property is divided into the following classes:

Class 1: Residential. This class includes any untitled parcel on which a dwelling is located.

Class 2: Commercial. This class includes parcels where the primary use is the selling of merchandise and/or the provision of a service. Apartment houses with 4 or more units are included in this class. Class 3: Manufacturing. This class includes parcels where the primary use is the assembling, processing, fabricating, making or milling of tangible personal property for profit.

Class 4: Agricultural. This class includes land where the primary use is for the growing of annual crops, pasturing animals, or similar activities.

Class 5: Undeveloped. This class includes lands such as bog, marsh, lowland brush, uncultivated land zoned as a shoreland, and nonproductive land not otherwise classified.

Class 5M: Agricultural forest. This class includes land capable of producing commercial forest products that meets one of the following requirements: it is contiguous to a parcel that has been classified in whole as agricultural and owned by the same person, or is located on a parcel where at least 50% of the acreage has been converted to agricultural land in the property assessment of January 1, 2005 or thereafter.

Class 6: Forest land. This class includes land that is capable of producing commercial forest products.

Class 7: Other. This class includes land not included elsewhere, farm buildings and improvements, and the land necessary for these farm-related structures.

Personal property is divided into the following classes:

Boats and watercraft: includes steam boats and other vessels.

Machinery, tools, and patterns: includes machinery, jigs, and tools that are not otherwise exempt.

Furniture, fixtures, and equipment: includes furniture and office and other equipment not classified as machinery.

Other: includes all other non-exempt personal property not included in the other categories.

For property taxation purposes, there are two critical values that can determine how much a property owner will pay: assessed value and equalized value. Assessed value is the value the assessor (the Wisconsin Department of Revenue for manufacturing real and personal property, the municipal government for all other property) places on the property. Property taxes within a tax rate area (an area in a municipality with the same county, technical college district, school district, and special district or districts) within a municipality are allocated to individual taxpayers based on their percentage of the total assessed value within their tax rate area. Equalized value is the total taxable value of all taxable property as determined by the Wisconsin Department of Revenue. Equalized value is determined for each entity that can levy a property tax – it is not determined for individual taxpayers. Equalized value is used by multi-municipal entities to allocate their property tax levy to their constituent municipalities; the tax levy is allocated to each municipality based on that municipality's share of the entity's total equalized value.

The following table shows data for 2012 on equalized values by class:

TABLE 1
EQUALIZED VALUE BY CLASS FOR 2012

Property class	Assessment standard	2012 Equalized value
Residential	100% market	\$ 333,466,956,000
Commercial	100% market	88,120,575,700
Manufacturing	100% market	12,652,049,300
Agricultural	Use value	2,146,208,400
Undeveloped	50% market	1,767,304,200
Agricultural forest	50% market	2,794,117,200
Forest	100% market	7,838,732,300
Other	100% market	10,912,834,800
Personal: boats & watercraft	100% cash value	16,521,400
Personal: machinery, tools, and patterns	100% cash value	4,225,805,000
Personal: furniture, fixtures, and equipment	100% cash value	4,993,261,700
Personal: other	100% cash value	2,184,509,600
Personal: prior year error adjustment	100% cash value	(26,346,400)
Total		\$ 471,092,529,200

Property Tax Levies By Entity

State total property tax levies for the 2011/12 property tax year are noted in Table 2, as follows:

TABLE 2
PROPERTY TAX LEVIES FOR 2011/12 BY TYPE OF UNIT

Type of Unit	Number of Units	Number of Units with a Tax Levy	Amount Levied	% of Total Levy
School districts	424	424	\$ 4,646,695,395	44.75%
Technical college districts	16	16	771,464,190	7.43%
Counties	72	72	1,972,231,785	18.99%
Municipalities – regular	1,850	1,825	2,461,688,769	23.70%
Municipalities – TIF increment districts	384	384	350,607,230	3.38%
Special districts	542	238	99,508,142	0.96%
State of Wisconsin (state forestation tax)	1	1	82,623,849	0.80%
Total	3,289	2,960	10,384,819,360	100.00%

The property tax is generally considered a residual revenue source for local governments. Every fall, the governing body of each local taxing jurisdiction determines its budget for the following year. The budgeted amount is reduced by other anticipated revenues, with the remaining amount raised from the property tax. State law may, however, limit the amount that may be raised (as discussed later in this paper).

Property Tax Credits

The school levy tax credit is distributed to municipalities based on their share of statewide school levies. The credit reduces individual property tax bills and is not considered a source of revenue by school districts and other local governments when setting their annual budgets and determining their property tax levies. For the 2011/12 property tax year, the credit totaled to \$747.4 million. The credit is calculated based on the prior 3 years' school tax levies (school district levies and levies for county-operated schools for children with disabilities) levied in each municipality. The credit appears on property tax bills as a reduction to the school property tax levy.

The lottery and gaming credit is paid on primary residences, which is generally defined as an owner-occupied house used as its owner's residence for 6 months or more in a given year. The credit equals the school district property tax levy on a certain amount (that can vary from year to year) of the residence's market value. For the 2011/12 property tax year, the credit equaled the school property tax on \$9,000 in market value. Total credits were about \$134.8 million, and the average credit was \$92.

The first dollar credit is paid to all real estate parcels on which an improvement is located. The credit equals the school district property tax levy on a certain amount (that can vary from year to year) of the parcel's market value. For the 2011/12 property tax year, the credit equaled the school property tax on \$6,800 in market value. Total credits were about \$148.2 million, and the average credit was \$67.

Property Tax and Spending Limits

Under the school district revenue limit, the amount of revenue that a school district can raise from general school aids (consisting of equalization aid, special adjustment aid, inter-district integration aid, and intra-district integration aid) plus property taxes (excluding levies for referendum approved debt and community service programs) may not exceed a certain level, defined by law. The amount can vary from year to year, is measured on a per pupil basis, and is generally based on the revenue limit of the prior year. For the 2011/12 school year, the revenue limit was 94.5% of the limit in 2010/11, and for the 2012/13 school year, the revenue limit is increased by \$50 per pupil.

Under the county rate limit, which was suspended for the 2011/12 and 2012/13 tax years, the operating tax rate and debt tax rate may not exceed the rates for 1992/93 rates. Adjustments to the limit are allowed for referendum approved increases in the rate and for transfer of responsibilities to other local units of government.

Technical colleges are subject to an operating tax rate limit of \$1.50 per \$1,000 of equalized value of property (1.5 mills). There is no limit on the debt service tax rate.

Municipalities and counties are subject to a levy limit. Under the limit, property tax levies may not increase by more than the greater of 0% or the percentage increase in unit's equalized value due to net new construction in the prior year. Adjustments to the limit are permitted for referendum approved increases, changes in costs for servicing some debts, and transfers of service responsibility to another local unit of government.

Property tax collection

Legal responsibility for issuing tax bills lies with the municipal clerk. By law, property tax bills are to be mailed in early December. In most localities, the clerk determines the tax rates to be used in the various tax rate areas in his or her municipality, the clerk notifies the county treasurer or tax lister of these rates, and the county prepares and mails the tax bills.

The initial property tax payment is usually made to the municipal clerk or treasurer. In general, a real estate property tax bill is due for payment no later than the following January 31. If the property owner chooses to pay in installments, his or her options depend on where the property is located. In most of the state, property taxes can be paid in 2 installments (January 31 and July 31). In some municipalities, property taxes may be paid in 3 to 7 installments (with the last installment no later than July 31). In the City of Milwaukee, property taxes can be paid in up to 10 installments.

Property tax settlement

Property tax settlement is the process by which amounts collected by municipal and county treasurers are distributed to those governmental entities that levied a property tax.

In two-installment municipalities, there are four settlements. In January, the municipal treasurer pays out for taxes collected in December. In February, the municipal treasurer pays out for taxes collected in January. The tax roll and collection process then transfers to the county. In March, the county treasurer pays the state for the state forestation tax. In August, the county treasurer pays out the remaining amounts due. Unpaid real estate taxes are generally retained by the county for subsequent collection.

In municipalities that permit 3 to 7 installments, the municipal treasurer is required to pay out for taxes collected at each installment date. The tax roll and collection process are turned over to the county after the last installment, at which point the county retains unpaid real estate taxes for subsequent collection.

In the City of Milwaukee, with its 10 installments, the process operates in a similar manner except that the City retains responsibility for collecting unpaid real estate taxes.

Delinquent property taxes

Annually, on September 1, the county treasurer issues a tax certificate to the county that includes all parcels of real property for which property taxes remain unpaid as of August 31. The issuance of the tax certificate begins what is known as the redemption period. Any person may redeem the land described in the tax certificate by paying all the unpaid taxes plus interest and penalties.

Generally, the redemption period is two years. A county can generally force collection of delinquent taxes two years after the issuance of the tax certificate. There are three methods to force collection of the delinquent taxes: (a) take a tax deed, (b) commence an action to foreclose the tax certificate, or (c) commence an action to foreclose the tax lien.

Most counties do not maintain ownership of tax-deeded property. Once a marketable title is obtained, counties usually sell the property. If the property sold had been used by the former owner as a homestead at any time during the 5 years preceding the county's acquisition, the former owner may be entitled to some of the net proceeds (excess of sale price over unpaid taxes, penalties, and interest plus costs related to acquiring and selling the property).